A Guide to the

Legislative Appropriation

Process





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TO: Members of the House of Representatives

A Guide to the Legislative Appropriation Process explains the State of Michigan budget process, and includes information on:

- ▶ Constitutional and statutory provisions that guide the budget process.
- ▶ The consensus revenue estimating process.
- ▶ The Legislature's role in the budget process.
- ▶ Appropriation bill format.
- ▶ Adjustments to enacted appropriations.

Terminology relating to the appropriation process is explained throughout the publication and in a glossary. The final section of the Guide discusses the mission of the House Fiscal Agency, noting the statute and policies governing the nonpartisan status and confidentiality of House Fiscal Agency employees.

Please contact me if you have questions regarding the information in this report.

Mitchell E. Bean

Mitchell EBam

Director

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INTRODUCTION

The state budget for Michigan serves the following purpose	The state	budaet	for	Michigan	serves	the	following	purposes
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- O Plans proposed expenditures.
- O Identifies means of financing proposed expenditures.
- O Allocates resources according to executive and legislative priorities.
- O Provides tools to monitor spending and hold agencies and departments accountable.
- O Distributes state resources to local governments.

The budget process for the State of Michigan is a continuous cycle: as the budget for the upcoming fiscal year is being finalized, the current-year budget is being monitored and budget planning for subsequent years is in progress. For Michigan, the fiscal year (FY) begins October 1 and ends on September 30 of the following year. Adjustments to the enacted budget can be made throughout the fiscal year.

Constitutional and statutory provisions provide the legal framework for the budget process. The provisions are contained in the Management and Budget Act [1984 Public Act (PA) 431], and in Articles IV, V, and IX of the Constitution of the State of Michigan of 1963.

It is important to note that appropriations are an authority, but not a mandate, to spend. In fact, many departments do not spend all that they are authorized to spend. Any General Fund/General Purpose (GF/GP) funds that are authorized but not spent or encumbered revert to the state's general fund and are available should the Legislature choose to appropriate them for another purpose. Restricted funds that are appropriated but not spent lapse to their respective restricted fund unless otherwise specified in the fund's enacting legislation. These funds are available to be used only for purposes consistent with the fund's restrictions; they are not available to be used for other purposes.

The Michigan Constitution gives the Legislature the power of the purse; this power is key to making the Legislature a coequal branch of the government. The power of the purse is also a tool that may be used by the Legislature to hold departments accountable for compliance with legislative mandates.

CONSTITUTIONAL AND STATUTORY PROVISIONS

Constitutional Provisions

The State Constitution requires the Governor to prepare budget recommendations and submit them to the Legislature at a time fixed by law. The Management and Budget Act stipulates that this submission must take place "within 30 days after the Legislature convenes in regular session," or within 60 days after the Legislature convenes in a year after a newly-elected Governor is inaugurated. The act also stipulates that executive budget bills include detail for proposed expenditures, and estimated or proposed revenue and resources to support those expenditures.

Article IV, Section 13 of the Michigan Constitution states that the Legislature must meet on the second Wednesday in January of each year. Hence, the Governor typically submits budget recommendations at some time during the first two weeks of February for the fiscal year which begins on October 1 of that year and ends on September 30 of the following year.

Specific constitutional provisions provide the framework for the state budget process. Some of the provisions are listed below.

Article IV (Legislative Branch)

- O Section 31
 - Establishes a priority for appropriation bills for the succeeding fiscal year.
 - States that adjustments made by supplemental appropriation bills may be adopted for the current fiscal year.
 - Specifies that one of the general appropriation bills passed by the Legislature must contain an itemized statement of estimated revenue by major source in each operating fund for the ensuing fiscal period.
 - States that the total estimated revenue shall not be less than the total of all appropriations made from each fund in the general appropriation bills as passed.
- O Section 33 states that gubernatorial line item vetoes may be overridden by a twothirds vote in both houses of the Legislature.

Article V (Executive Branch)

O Section 18

- Directs the Governor to submit a balanced budget proposal to the Legislature for the ensuing fiscal period.
- Requires that the executive budget include detail for all operating funds, the proposed expenditures, and the estimated revenue necessary to fund those expenditures.
- States that any deficit or surplus from the last preceding fiscal year must be entered in the next year's budget and one of the appropriation bills.
- Provides that the Governor may revise executive budget recommendations at any time, even after the appropriation bills have been introduced.
- O Section 19 states that the Governor may disapprove any distinct item or items appropriating moneys in any appropriation bill.

O Section 20

- Stipulates that no appropriation shall be a mandate to spend.
- States that the Governor, with approval of the House and Senate appropriations committees, shall reduce authorized expenditures for departments of the executive branch when it appears that actual revenue will fall below the revenue estimate on which appropriations were based.

Article IX (Finance and Taxation)

- O Section 1 states that the Legislature shall impose taxes sufficient with other resources to pay expenses of state government.
- O Section 2 stipulates that the power of taxation shall never be surrendered, suspended, or contracted away.
- O Section 14 authorizes, and stipulates conditions for, short-term borrowing to manage cash flow.
- O Section 15 allows, and stipulates conditions for, long-term borrowing for capital and other projects; legislative and voter approval required.
- O Section 17 states that no money shall be paid out of the state treasury except in pursuance of appropriations made by law.
- O Sections 25 and 29 prohibit unfunded mandates on units of local government.

- O Section 26
 - Sets the formula for calculating the state revenue limit.
 - Requires a pro rata refund or a transfer to the State Budget Stabilization Fund (BSF) if the revenue limit is exceeded by 1% or more.
- O Section 28 limits state expenditures to the sum of the state revenue limit plus federal funds plus any surplus from a previous fiscal year.
- O Section 30 prohibits reducing the proportion of total state spending paid to all units of local government, taken as a group, below the proportion in effect for FY 1978-79.

Statutory Provisions

Michigan's Management and Budget Act (1984 PA 431, MCL 18.1101-18.1594) details duties, responsibilities, and procedures for the financial management and oversight of state government.

The act's provisions govern the executive budget process and provide for budgetary control. The act also assigns duties and responsibilities for preparing an executive budget recommendation and submitting it to the Legislature, implementing enacted appropriation bills, and making budgetary adjustments.

Additionally, statutory provisions in the Management and Budget Act:

O	Set the administrative framework for state government.
O	Set the schedule for consensus revenue estimating conferences.
O	Set the date for the executive budget submission.
O	Set the duties of the state budget director.
O	Allow budget adjustments through the transfer process.

- O Establish a process for compliance with constitutional balanced budget provisions through Executive Orders.
- O Include provisions governing accounting, auditing, capital outlay, work projects, consensus revenue process, BSF, compliance with Headlee provisions, and reports to the Legislature.
- O Establish year-end accounting schedules.

THE BUDGET PROCESS

The executive budget process begins well in advance of the time when the budget will be submitted to the Legislature. State departments start planning their budget submissions more than a year before the start of the fiscal year for that budget and, typically, submit their spending plans to the state budget director in the fall prior to the executive budget submission to the Legislature in February.

Before presenting final budget proposals to the Governor, the state budget director may hold hearings at which department officials discuss budget proposals. If requested by the state budget director, the chief executive officer of a department attends the hearings and provides information requested. A Governor-elect is invited to attend and participate in these hearings.

The executive budget proposal must include amounts needed for the state's capital outlay program and for debt service on general obligation and transportation bonds. Expenditures from Michigan's General Fund and School Aid Fund must adhere to consensus revenue estimates; additional proposed expenditures must be accompanied by proposals for new or additional revenue.

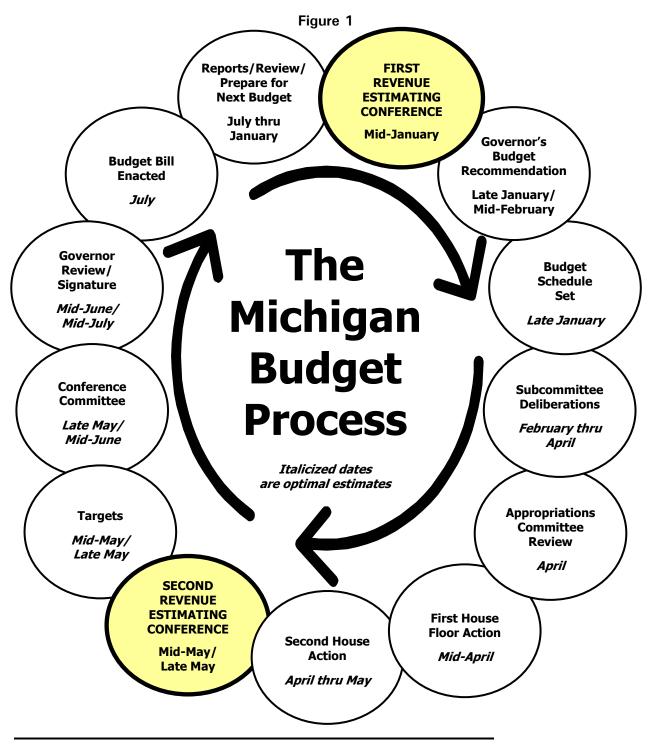
Under the Management and Budget Act, the state budget director is authorized to:

- O Plan and develop the executive budget proposal.
- O Provide for evaluation of state programs.
- O Plan and evaluate allocation of available funding.
- O Evaluate administrative management and performance in accordance with approved public policy.
- O Review departmental organization and review programs for cost and impact.
- O Prepare spending plans which take into account the findings of state program evaluations and Auditor General recommendations.

During the appropriation bill process—beginning with the Governor's executive budget presentation—the House and Senate fiscal agencies provide technical support and analysis to members of subcommittees, full committees, and conference committees in their respective chambers. Analysts are available to testify before an appropriations subcommittee or full committee to explain budget details and/or the fiscal impact of a change made to a budget. House Fiscal Agency analysts also provide support to House

members when the bill is on the floor of the House, including drafting amendments and substitute bills.

Fiscal agency analysts also provide members with documents to aid in the decision-making process. For consideration by subcommittees and full committees, the fiscal agencies prepare decision documents comparing the executive recommendation with alternatives and options proposed by members. Prior to floor action, summary documents are prepared for members' use during floor deliberations.



Consensus Revenue Estimating Conferences

Michigan uses a consensus process created by 1991 PA 72 to generate official revenue estimates for its budget. Guidelines for consensus revenue estimating conferences are contained in the Management and Budget Act—the primary statute governing the budget process in Michigan.

Statute requires that consensus revenue estimating conferences be held each year in the second week of January and the last week of May; these conferences establish the official economic and revenue forecasts that will be used in budget deliberations. Revenue estimating conferences may also be convened during the year by the conference chairperson at the request of a conference principal. All consensus revenue estimating conferences are open to the public.

Conference principals are the state budget director or state treasurer, the director of the House Fiscal Agency, and the director of the Senate Fiscal Agency, or their respective designees. The responsibility of presiding over sessions of the conference is rotated annually among the principals.

FORECAST OUTPUT FORECAST INPUT University of Michigan Total GF/GP Revenue **Economic Outlook** Governor's Total **Executive Roundtable** School Aid Fund **.....** Revenue **CONSENSUS AGENCY FORECASTS** REVENUE Administration School **ESTIMATING** Foundation Index Senate Fiscal Agency CONFERENCE **House Fiscal Agency** Revenue State Limit **Economic Forecasts** National Budget **Economic Forecasts** Stabilization Fund Pay-In/Pay-Out

Figure 2
Consensus Revenue Estimating Process

The House Fiscal Agency, Senate Fiscal Agency, and the Department of Treasury monitor state and national economies and track estimated revenue resources throughout the year.

National economic experts and experts from the major sectors of the state economy provide information on national, international, and state economic conditions at conferences and meetings held in November and December of each year. After these meetings, the House and Senate fiscal agencies and the Department of Treasury individually prepare economic and revenue forecasts. Each agency's forecast is made public a few days prior to a consensus revenue estimating conference.

During a revenue estimating conference, experts from academia, the federal government, and/or the private sector present and discuss their economic forecasts. Economists from the fiscal agencies and from the Department of Treasury present individual economic forecasts for the current and upcoming fiscal years, and then present a joint staff forecast. Forecasts are based on the assumption that current law will remain in effect for the forecast period.

Conference principals consider the information provided by conference presenters, and work to reach agreement on the official economic and revenue estimates that will be used as the basis for Michigan's budget.

January consensus revenue estimates become the basis for the executive budget proposal that is presented to the Legislature in February; May consensus revenue estimates become the basis for legislative appropriation bills presented to the Governor in June or July.

The official economic and revenue forecast must, by statute, be unanimous, and must include estimates for:

- O Tax collections (income, sales, and business).
- O Total General Fund/General Purpose (GF/GP) revenue.
- O Lottery transfers to the School Aid Fund.
- O Total School Aid Fund revenue.
- Annual percentage growth in the per pupil basic foundation allowance (pursuant to MCL 388.1601 to 388.1772).
- O Compliance with the state revenue limit (pursuant to Article IX, Section 26 of the State Constitution).
- O Pay-ins to or pay-outs from the Countercyclical Budget and Economic Stabilization Fund (BSF) as required by law.

Budget Presentation to the Legislature

Broad outlines of proposed major policy changes and new initiatives are included in the Governor's State of the State address—traditionally given near the end of January. Formal

presentation of the executive budget usually occurs early in February (or March—if a newly-elected Governor has just been inaugurated), when the state budget director addresses a joint meeting of the House and Senate appropriations committees to explain major components of the executive recommendation and answer questions posed by appropriations committee members.

The executive budget document, which details the Governor's spending proposals, is released at the joint appropriations committee meeting. As required by the Management and Budget Act, line item appropriation detail is electronically transferred to the legislative fiscal agencies when the executive budget is transmitted to the Legislature.

Executive appropriation bills are submitted to the Legislature shortly after the executive budget is released. These bills contain the following:

- O Individual line item amounts to implement the Governor's recommendations.
- O The estimated number of full-time equated (FTE) positions funded by each line item.
- O Revenue sources needed to finance proposed expenditures.

One of the appropriation bills (usually the General Government bill) details estimated revenue for each operating fund, summarizes recommended operating fund operating expenditures, and itemizes estimated state spending to be paid to units of local government.

Legislative Deliberation and Passage

In Michigan's Legislature, the House and Senate each have an appropriations committee—often referred to as the full appropriations committee—that reviews appropriations subcommittee recommendations, and either recommends adoption of an appropriation bill to the full membership of its chamber, or sends the bill back to the subcommittee for further deliberation.

Appropriations subcommittees in each chamber are responsible for detailed review, deliberation, and recommendation of appropriation bills to their respective appropriations committees. The composition of appropriations subcommittees (number of members, ratio of membership from each party, etc.) may vary from one legislative session to the next; typically, leadership in each chamber makes these decisions in the January following an election.

By tradition, legislative leaders apportion the executive appropriation bills between the House and Senate for initial consideration. Legislative appropriation bills originate in either the House or the Senate—alternating year to year. The originating chamber is referred to as the "first house."

After House and Senate leadership agree on a schedule for subcommittee, full committee, and floor action on the bills, appropriations subcommittee chairs plan and schedule subcommittee meetings to ensure that subcommittee action is completed on time.

Throughout the subcommittee and full committee process, the appropriations committee retains procedural possession of an appropriation bill.

The full appropriations committee may act on any appropriation bill at any time during the committee process. Amendments to an appropriation bill can occur during subcommittee consideration of the bill, when the bill is considered by the full appropriations committee, and/or when the bill is being considered on the floor of either chamber.

Because most amendments or changes occur during the committee processes, legislators not serving on appropriations committees may confer with subcommittee and appropriations committee chairs—and/or minority vice chairs—with regard to policy proposals as soon as feasible in the budget process.

House and Senate Appropriations Subcommittees

- O Subcommittee members review the executive budget recommendations and current-year budget provisions. This may take the form of a line-by-line review of the bill by the complete subcommittee, or a review by a work group made up of subcommittee members; the process varies somewhat from subcommittee to subcommittee.
- O When reviewing the line items and boilerplate sections of a proposed appropriation bill, subcommittee members consider and include legislative priorities.
- O Subcommittee members convene public meetings and meet with department staff. These informational sessions can involve testimony from department officials, fiscal agency staff, program clientele, interest groups, and any other entities that may provide information related to issues.
- O The appropriations subcommittee decision-making process includes resolving differences in areas of disagreement or controversy, and may lead to a revised or new (usually as a substitute) appropriation bill.
- O The bill is then reported out of the subcommittee to the full appropriations committee.

House and Senate Full Appropriations Committees

O Appropriations committee members review subcommittee recommendations and amend, substitute, or adopt the appropriation bill—or send the bill back to the subcommittee for further deliberation.

Once an appropriation bill has been approved by a full appropriations committee, it is reported out of the full appropriations committee to the floor of the respective chamber.

House and Senate Floor Consideration

- O The Constitution states that no bill may be passed or become law until "it has been printed or reproduced and in the possession of each house for at least five days"—that is, a bill must lay over for five days before passage. The five-day delay allows time for all members to familiarize themselves with the bill.
- First house floor action on an appropriation bill consists of debate, proposed amendments, and possible introduction of a substitute bill. The appropriation bill is then passed by the first house.
- After passage by the first house, an appropriation bill is transmitted to the second house where it is assigned to the appropriations committee; it then goes through the same subcommittee, full committee, and floor review and deliberation process as it did in the first house.
- When the second house has completed its work on an appropriation bill, the bill (often with changes or as a substitute bill) is returned to the first house. The first house may then concur or not concur in adoption of the bill as it is received from the second house.

Target Meetings

The target process allows House leaders, Senate leaders, and administration officials to negotiate matters pertaining to particular programs, budget issues, and policies. House and Senate majority party leaders usually convene target meetings with the state budget director (who represents the Governor in these discussions) soon after the May consensus revenue estimating conference—and when budget bills have passed both the House and Senate.

The goal of the target process is to reach an agreement that defines the amount of resources available to support the coming-year budget (particularly GF/GP resources), apportion those resources among the appropriation bills, decide whether to include standardized boilerplate in the appropriation bills, and resolve any disagreements among the target meeting participants.

During target meetings, directors of the House and Senate fiscal agencies and the state budget director provide fiscal analyses and information to facilitate discussions among leadership, document decisions reached at the meetings, and prepare target summary reports for leaders and members of each of the legislative chambers.

In effect, final target numbers become an appropriation ceiling for each of the respective appropriation bills. Final target decisions—which provide a basis for the remainder of the budget deliberation and adoption process—are included in the target agreement.

Conference Committee Consideration

- O If the same version of an appropriation bill is passed by both the House and Senate, it is referred for enrollment printing and presentation to the Governor.
- O If the House and Senate versions of an appropriation bill differ, the bill is usually assigned to a conference committee.
 - Under the Joint Rules of the Senate and House of Representatives, the conference committee consists of three members from each house—to be appointed as each house determines; the first-named member of the house in which the bill originated is the chairperson of the conference committee.
 - By joint rule, conference committees may not consider any matters other than matters of difference between the two houses on a particular appropriation bill.
- O If the conferees arrive at an agreement on the matters of difference, a conference report—which reflects the conference agreement—is produced and presented to both the House and Senate chambers.
 - A conference committee report is not subject to amendment or division by either the House or the Senate; each house must vote "yea" or "nay" on acceptance of the conference report as presented.
- O If the conference report is adopted by both houses, the bill and the original signed copy of the conference report are returned to the house of origin and referred for enrollment printing and presentation to the Governor.
- O If the conference committee report is rejected by the house of origin, that house appoints conferees for a second conference and notifies the other house of its action.

If the conference report is rejected by the other house, it appoints conferees for a second conference, notifies the house of origin, and transmits the bill to the house of origin—which then also appoints conferees. The ensuing second conference committee procedure is the same as that used for the original conference.

In the event that a second conference committee fails to reach agreement, or when a second conference report is rejected by either house, no further conference is in order for that bill.

Executive Approval and Enactment

- After a bill or conference report has been referred for enrollment printing and presentation to the Governor:
 - The Governor then has 14 days to approve or veto the entire bill, or veto any distinct items appropriating moneys—the same procedure applicable to any other enrolled bill.
 - The parts of the bill that are approved become law, and the items disapproved are void unless the Legislature re-passes the entire bill—or the disapproved items—by a 2/3 vote in each house.

The attorney general has ruled (Opinion 6684, 1991) that the Governor "may not veto conditions upon these appropriations in the absence of vetoing the line item appropriations appearing as individual line items or in paragraph form."

- If the Governor does not approve the bill within the 14-day period and the Legislature continues in session, the bill becomes law as if the Governor had signed it.
- If the Governor does not approve the bill within the 14-day period and the Legislature has—within that time—finally adjourned the session at which the bill was passed, the bill does not become law.
- O After the Governor signs an appropriation bill, it is filed with the Secretary of State for a Public Act number, and considered enacted. The Governor then writes a letter to the bill's originating chamber summarizing the major points of the appropriation act, giving a rationale for approving the bill, and stating the reasons for any disapproved items.

APPROPRIATION BILL FORMAT

An enacted appropriation bill provides legal authorization—by unit and by program and/or line item—to make specified expenditures for specified purposes. Appropriation bills for individual departments, and the judicial branch, generally consist of three major parts:

- The title of the act.
- O Part 1: Line Item Appropriations.
- O Part 2: Provisions Concerning Appropriations.

Appropriation bills for the School Aid (K-12) budget are enacted as amendments to the School Aid Act (1979 PA 94); they do not follow the same format as other appropriation bills.

Figure 3 Appropriation Bill: Titles

Appropriation act title (from 2008 PA 251) for a specific department (or the judicial branch):

AN ACT to make appropriations for the department of labor and economic growth and certain other state purposes for the fiscal year ending September 30, 2009; to provide for the expenditure of those appropriations; to provide for the imposition of certain fees; to provide for the disposition of fees and other income received by the state agencies; to provide for reports to certain persons; and to prescribe powers and duties of certain state departments and certain state and local agencies and officers.

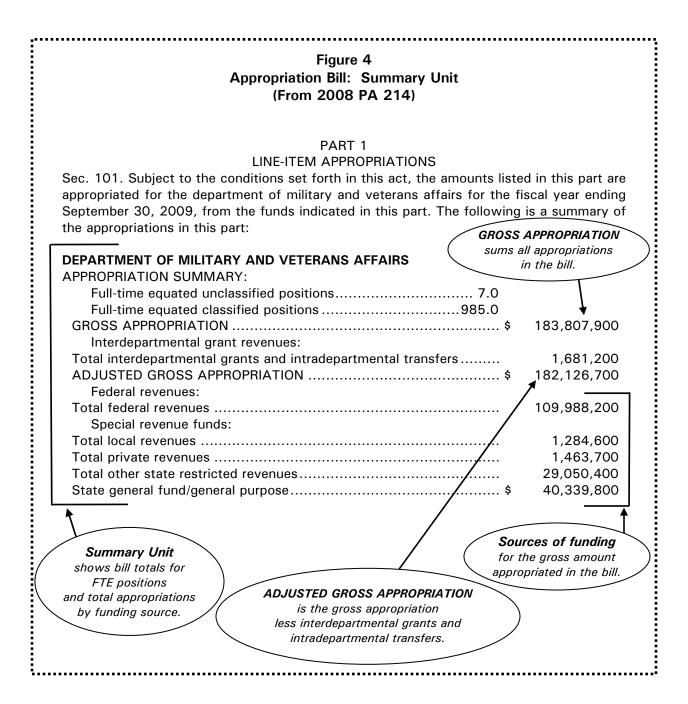
Appropriation act title (from 2008 PA 113) for a supplemental appropriation bill:

AN ACT to make, supplement, and adjust appropriations for various state departments and agencies and the judicial branch for the fiscal year ending September 30, 2008; to provide for the expenditure of the appropriations; and to repeal acts and parts of acts.

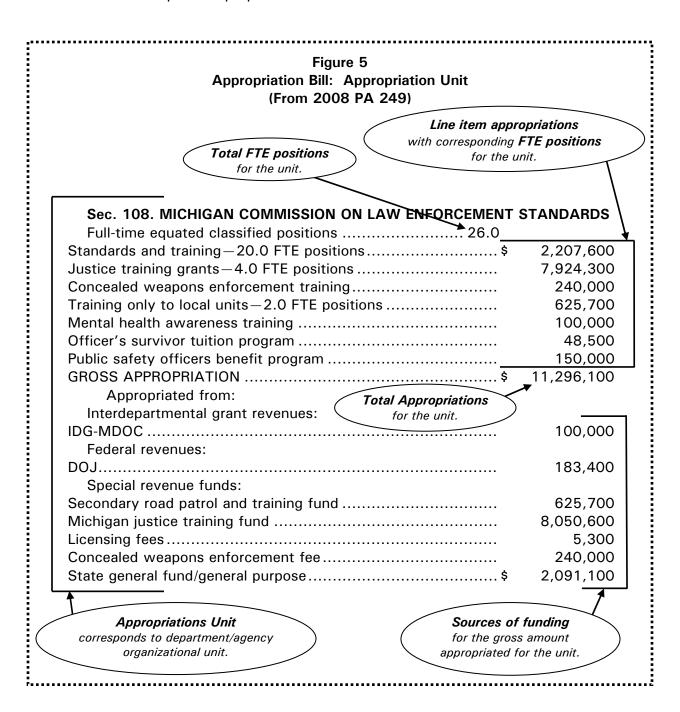
Part 1: Line Item Appropriations

Section 101 summarizes appropriations and funding sources authorized for each line item in the bill.

O The summary unit at the beginning of Section 101 (Figure 4) includes total FTE positions, total appropriations, and all of the funding sources that will finance the appropriations in the bill.



- O The summary unit is followed by appropriation unit and line item detail (Figure 5), which establish spending authority for specific programs or functions.
 - Appropriation units usually house a closely-related group of activities and/or programs within a department, organizational unit, or program area.
 - Line items within appropriation units provide expenditure authorization for a specific purpose; this may include more than one program or function related to the specified purpose of the line item.



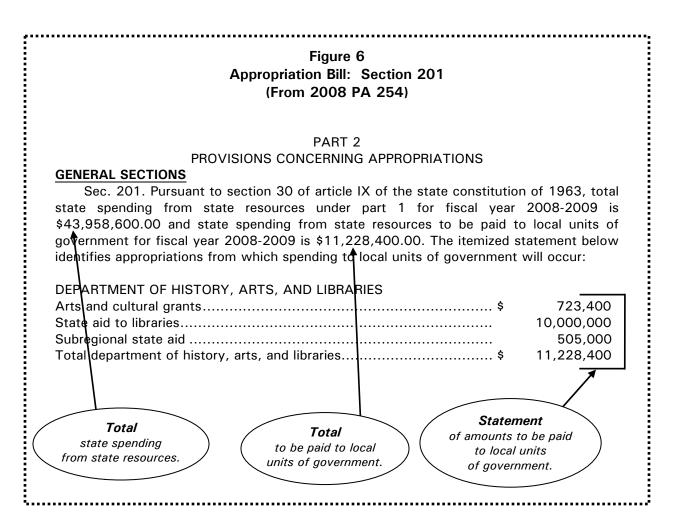
Part 2: Provisions Concerning Appropriations

This portion of an appropriation bill provides additional direction as to the manner in which expenditures are made.

O Total State Spending From State Resources

Article IX, Section 30 of the State Constitution requires that the proportion of state spending from state sources paid to all units of local government may not be reduced below the proportion in effect in FY 1978-79. That proportion has been determined to be 48.97%.

The current practice is to include a Section 201 (Figure 6) in each appropriation bill adopted by the Legislature. Section 201 includes a total of state spending from state resources, and a statement of the amount of state spending from state resources that is to be paid to local units of government.



O Boilerplate

Appropriation bills contain language which places conditions on the manner in which expenditures are to be made. These boilerplate provisions may earmark funding, prohibit spending for certain purposes, require reports, and/or establish legislative interests and priorities.

The Legislature intends that boilerplate conditions affect the way in which the executive branch implements or executes the adopted budget.

Standardized boilerplate provisions may be agreed to by House and Senate leadership during legislative deliberations before appropriation bills are passed, or during target meetings.

For some fiscal years, certain boilerplate language is common to all (or most) budget bills (Figure 7).

Figure 7 Appropriation Bill: Standardized Boilerplate (From 2008 PA 253)

Sec. 204. The civil service commission shall bill departments and agencies at the end of the first fiscal quarter for the 1% charge authorized by section 5 of article XI of the state constitution of 1963. Payments shall be made for the total amount of the billing by the end of the second fiscal quarter.

Sec. 208. Unless otherwise specified, the department shall use the Internet to fulfill the reporting requirements of this act. This requirement shall include transmission of reports via electronic mail to the recipients identified for each reporting requirement and shall include placement of reports on an Internet or Intranet site.

Sec. 210. The director of each department receiving appropriations in part 1 shall take all reasonable steps to ensure businesses in deprived and depressed communities compete for and perform contracts to provide services or supplies, or both. Each director shall strongly encourage firms with which the department contracts to subcontract with certified businesses in depressed and deprived communities for services, supplies, or both.

Recent examples of standardized boilerplate include language pertaining to:

- Civil Service charges.
- Hiring freeze.
- Internet reporting.

- Buy American.
- Businesses in deprived/depressed communities.
- Department of Information Technology services.
- Travel restrictions.
- Policy change implementation report.

In some fiscal years, budget bills contain boilerplate language that identifies spending authority in addition to that contained in part 1 of an appropriation bill (Figure 8). This additional authority—referred to as "contingency funds"—allows for the expenditure of additional revenue that may become available during the budget year from a federal, local, private, or state restricted source.

Contingency fund authority contained in boilerplate language is not included in state budget totals, since the authority cannot be expended until it is transferred to a specific line item, under Section 393(2) of the Management and Budget Act, following identification of an available revenue source.

Figure 8 Appropriation Bill: Contingency Funds Boilerplate (From 2008 PA 245)

Sec. 223. (1) In addition to the funds appropriated in part 1, there is appropriated an amount not to exceed \$10,000,000.00 for federal contingency funds. These funds are not available for expenditure until they have been transferred to another line item in this act under section 393(2) of the management and budget act, 1984 PA 431, MCL 18.1393.

Most boilerplate provisions, however, are nonstandard (Figure 9).

Because each department or agency has special or unique requirements (e.g., monthly reporting and/or providing for conditional funding of certain activities), much of the boilerplate in an appropriation bill will be specific only to the department or agency covered in that bill.

Appropriations subcommittees usually decide on the specific nonstandard boilerplate language to be included in each bill.

Figure 9 Appropriation Bill: Budget-Specific Boilerplate (From 2008 PA 253)

Sec. 402. Not later than April 1, 2009, the department shall provide a report to the house and senate appropriations subcommittees on agriculture and the house and senate fiscal agencies describing significant food-borne outbreaks and emergencies including any enforcement actions taken related to food safety during the 2007-2008 fiscal year.

Sec. 456. Of the funds appropriated in part 1, no funds shall be used to enforce the mandatory electronic animal identification program for any domestic animals other than cattle until specific procedures and guidelines for electronic animal identification are outlined in statute.

Sec. 607. It is the intent of the legislature that the department continue its activities in support of intercounty drainage districts as provided in chapter 5 of the drain code of 1956, 1956 PA 40, MCL 280.101 to 280.106.

ADJUSTMENTS TO ENACTED APPROPRIATIONS

Supplementals

During a fiscal year, the state may experience an unanticipated increase or decrease in available revenue, funding requirements, or program savings which necessitates a change in the allocation of resources.

A supplemental appropriation bill allows the Legislature to make adjustments to a current-year budget—for just one department, or for many departments—at any time after appropriations for that fiscal year have been enacted. After being introduced by either the House or the Senate, a supplemental appropriation bill is deliberated and adopted in the same manner as other appropriation bills.

A supplemental appropriation bill for one or more departments or budget areas allows the state to make positive or negative budget adjustments to keep the budget in balance for any of the following reasons:

- O To allocate additional revenue.
- O To implement program reductions to keep the budget in balance.
- O To allow a shift in funding from one department to another (interdepartmental transfers can be accomplished only by supplemental appropriation).

The supplemental process usually begins with a letter from the state budget director requesting a supplemental appropriation bill; the bill can then be introduced in either the House or the Senate. Depending on the type of supplemental requested, legislative deliberations begin at either the subcommittee level or the full appropriations committee level. During review of a supplemental request, legislators may consider amendments or initiate a substitute before reporting the bill out of committee.

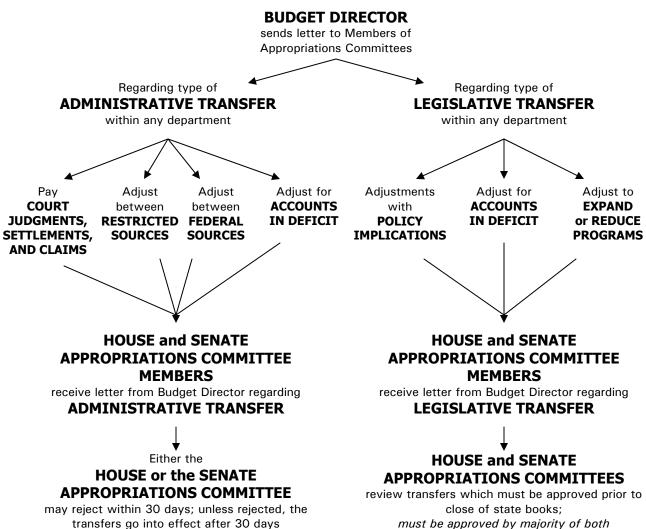
After committee passage, a supplemental bill is debated in both the House and Senate. If the bill is passed by both chambers with differences, it is referred to a conference committee for resolution of the items of difference.

Once approved by both the House and the Senate, a supplemental bill is sent to the Governor for review, possible veto of any distinct item or items appropriating moneys, signature, and filing with the Secretary of State.

Transfers

A transfer is an accounting adjustment made to increase or decrease expenditure authority for line items within a department or agency; transfers of financing sources are made concurrently with related transfers of spending authority. Pursuant to the Management and Budget Act, two types of transfers are authorized: administrative transfers and legislative transfers. Figure 10 illustrates transfer procedures.

Figure 10
Administrative and Legislative Transfers



House and Senate Appropriations Committees; and <u>must be identical</u> in terms of funding sources and dollar amounts

The transfer process:

- O Can be used to move spending authority from one line item to another within a department.
- O Cannot be used to accomplish any of the following:
 - Create a new line item appropriation or create a new state program.
 - Transfer spending authority to or from an operating appropriation line item that did not appear in the fiscal year appropriation bills for which the transfer is being made.
 - Transfer spending authority to or from a work project.
 - Transfer spending authority between state governmental funds.

The House and Senate fiscal agencies provide staff support to their respective appropriations committees to ensure proposed transfers are identical in terms of funding sources and dollar amounts, and that they comply with all applicable laws related to transfers.

Unlike supplemental appropriations, transfers—either administrative or legislative—do not require or involve deliberation and adoption by the full House and Senate. Approval or rejection of transfers is the responsibility of the House and Senate appropriations committees.

Administrative Transfer

Transfers of spending authority between line item appropriations within any department can be made by the state budget director through the process authorized by the Management and Budget Act. Administrative transfers are allowed to:

- O Adjust for unanticipated cost and price variations from enacted budget items.
- O Adjust amounts between federal sources of financing for a specific line item.
- O Adjust amounts between restricted sources of funding for a specific line item.
- O Pay court judgments, settlements, and claims.

Administrative transfers may not be used to make adjustments which have policy implications or which have the effect of creating, expanding, or reducing programs within a department.

The following process is used for administrative transfers:

- O The state budget director, in consultation with the department(s) involved, submits a letter with transfer recommendations to members of the House and Senate appropriations committees.
- O House and Senate appropriations committees have 30 days after receiving the state budget director's letter to disapprove any or all of the recommended transfers.
- O If no disapproval action occurs within the 30-day period, the transfers have the full effect of law.

Legislative Transfer

Legislative transfers allow transfer of spending authority for line item appropriations to make adjustments that may have policy implications, to adjust for accounts in deficit, and to make adjustments to expand or reduce programs.

Typically, legislative transfers are initiated by the state budget director, who submits them for approval by both the House and Senate appropriations committees. Both appropriations committees must authorize legislative transfers; if either appropriations committee withholds authorization, the transfer cannot occur.

The following process is used for legislative transfers:

- O The state budget director, after consultation with the departments involved, submits a letter with the recommended transfers to each member of the House and Senate appropriations committees for their review and approval.
 - Although recommendations for legislative transfers typically come from the state budget director, members of the appropriations committees can also initiate and approve transfers. If the state budget director does not approve transfers adopted by both the House and Senate appropriations committees, the state budget director must notify each member of both appropriations committees of his/her action within 15 days after the House and Senate appropriations committees' final approval.
- Approved legislative transfers must be identical in terms of funding sources and dollar amounts.
- O If legislative transfers are approved by both appropriations committees, a joint letter of approval, together with the approved transfers, is signed by the chairpersons of the appropriations committees and sent to the state budget director. A transfer approved pursuant to the Management and Budget Act has the full effect of law.

Contingency Funds Transfer

A contingency funds transfer is a specific type of legislative transfer that moves general spending authority contained in boilerplate language to a specific line item appropriation to allow for the expenditure of additional revenue that becomes available during the budget year from a federal, local, private, or state restricted source.

Contingency funds authority contained in boilerplate language is not included in state budget totals, since the authority cannot be expended until it is transferred to a specific line item, under Section 393(2) of the Management and Budget Act, following identification of an available revenue source.

Adoption of a contingency funds transfer by the Legislature results in a net increase to the appropriation amount in a department's budget. Absent the existence of contingency funds boilerplate authorization, this type of budget adjustment has to be made through a supplemental appropriation bill.

Emergency Reductions

If it appears that actual revenue for a fiscal year will fall below anticipated revenue, the Management and Budget Act provides that the Governor shall order the state budget director to review all appropriations except those made for the legislative and judicial branches of government or from funds constitutionally dedicated for specific purposes.

Based on the state budget director's review, the Governor may, by Executive Order and with approval of the appropriations committees, reduce expenditures authorized by appropriation for the departments and agencies of the executive branch; appropriations for the legislative and judicial branches can be reduced only through the supplemental process.

The Governor must give not less than a five-day notice to the members of the appropriations committees specifying a time and place for a joint meeting of the Governor and the appropriations committees at which the Governor presents recommendations and the proposed Executive Order. Within ten days thereafter, the appropriations committees must approve or reject the order.

If both appropriations committees approve, the state budget director implements the order; if one house's appropriations committee rejects the order, the notice and joint meeting process may be repeated.

Work Projects

The Management and Budget Act states that at the end of a fiscal year, the portion of an appropriation not yet expended and not committed for expenditure lapses to the state fund

from which it was appropriated. The one exception to this requirement is a work project appropriation, which continues to be available until completion of the work or 48 months after the last day of the fiscal year in which the appropriation was originally made, whichever comes first.

A "work project" is defined as a one-time, nonrecurring undertaking for the purpose of accomplishing an objective. In order to be designated as a work project appropriation, all of the following criteria must be met:

- O The work project must be for a specific purpose.
- O The work project must contain a specific plan to accomplish its objective.
- O The work project must have an estimated completion cost.
- O The work project must have an estimated completion date.

The state budget director has the authority to issue directives to lapse existing work project accounts at any time, but the state budget director must notify the House and Senate appropriations committees and the House and Senate fiscal agencies of work project accounts that the state budget director has ordered to lapse.

Within 45 days after the close of a fiscal year, the state budget director must notify the House and Senate appropriations committees and the House and Senate fiscal agencies of appropriations proposed to be designated as work project accounts. This notification must include an estimate of the dollar amount of the funds to be designated as work project accounts and a description of all work project accounts designated in an appropriation act.

Either or both of the appropriations committees may disapprove, within 30 days after the date they are notified by the state budget director, proposed designations as work project accounts or directives to lapse existing work project accounts. If neither appropriations committee disapproves within the 30-day time frame, the proposed work project accounts or the directives to lapse work project accounts become effective.

Within 120 days after the close of a fiscal year, the state budget director must prepare and deliver to the House and Senate appropriations committees and the House and Senate fiscal agencies a report that summarizes current work project accounts. This report must contain a listing of all work project accounts, the balance in each account, the amount of funds that lapsed from any previously-designated work project accounts, and the accounts that received these lapses.

Occasionally, the Legislature will include specific boilerplate language in an appropriation bill which establishes a work project account. More often than not, however, the executive branch designates work project accounts—which are subject to rejection by the appropriations committees of either chamber.

HOUSE FISCAL AGENCY ROLE AND RESPONSIBILITIES

The House Fiscal Agency (HFA) is the nonpartisan fiscal staff of the Michigan House of Representatives. Pursuant to 1986 PA 268, the House Fiscal Agency currently operates under a six-person, bipartisan governing committee consisting of the speaker of the house, the minority leader, the chairperson and minority vice-chairperson of the appropriations committee, and the majority and minority floor leaders.

Policies adopted by the governing committee implement the Agency-enabling legislation (1993 PA 24) and outline the Agency's primary responsibilities, which include:

- Analyzing the state budget as recommended by the Governor and alternative proposals submitted by the state departments and by members of the Legislature.
- O Developing appropriation bills and amendments for appropriations committee members.
- O Developing substitute bills and floor amendments, and analyzing policy alternatives at the request of representatives.
- O Monitoring expenditures to determine compliance with legislative intent.
- O Completing other assignments as requested.

Subject to statutory confidentiality requirements, Agency staff also provide fiscal information, on request, to all members of the House of Representatives. Requests requiring the use of data not available within the Agency must be submitted to the Agency Director, in writing, for approval.

The Agency also provides orientation and training for members and their staffs on state budget and finance matters.

The Director of the House Fiscal Agency, by statute, is one of three state officials charged with forecasting state revenues at Consensus Revenue Estimating Conferences. Other responsibilities of the Director include managing Agency personnel, facilities, and operations; and approving—prior to release—all Agency reports, studies, and analyses.

Other House Fiscal Agency staff and their areas of responsibility include:

O Fiscal Analysts

Assist legislators with developing the state budget; review and prepare budget and supplemental appropriation bills and certain transfer requests; provide fiscal impact statements on proposed legislation; monitor, research, and analyze fiscal issues; and prepare reports and documents to assist legislative deliberations.

O Economists

Analyze legislation related to tax and lottery issues, monitor state revenue, track state and national economic conditions, and prepare reports on revenue and other economic issues.

O Legislative Analysts

Prepare nonpartisan summaries and analyses of bills pending before the House. Summaries, completed prior to committee deliberations, describe how a bill would change current law, including any fiscal impact. Analyses are prepared for bills as they are reported from committee; they include, with summary information, a description of the problem being addressed and arguments for and against the bill.

Nonpartisan Status

The House Fiscal Agency is a nonpartisan agency within the Michigan House of Representatives. Accordingly, all Agency employees "execute their assigned duties with impartiality and without regard to their own personal opinions, attitudes, or beliefs." An Agency employee is prohibited from "involvement in any 'partisan political activities' if such participation could give the appearance that the employee's impartiality could be compromised or threatened."

Governing Committee policy specifically prohibits employees from "becoming officers in a state or national partisan political party, becoming delegates to any state, district, or county convention held by a political party, becoming members of any national political party committee, or becoming delegates from the state to any national political party convention."

Governing Committee policy also states that:

An employee of the Agency will not become a declared candidate for any partisan public office without first resigning from Agency employment. An employee of the Agency will notify the Director of an appointment to any board, commission, council or other agency of the State of Michigan or a local unit of government.

Confidentiality

Statute requires that the working relationship between an employee of the House Fiscal Agency and members of the Legislature be completely confidential. Specifically, an employee of the Agency:

"shall not reveal to any person who is not an employee of the house fiscal agency the contents or nature of any bill, substitute, amendment, resolution, special report, or proposal not yet published unless the employee has the consent of the member who is sponsoring or requesting the bill, substitute, amendment, resolution, special report, or proposal. A bill shall not be considered published until it is introduced. A substitute, an amendment, or a conference report shall be considered published when received by the secretary of the senate or the clerk of the house of representatives, or both, as is appropriate."

Confidentiality of House Fiscal Agency staff is further defined in governing committee policies: ". . . matters pertaining to activities being processed or completed for members or committees of the Legislature by employees of the Agency will not be discussed or otherwise made known without the prior approval of the member or committee concerned."

Appropriation Process Tools

Each year the House Fiscal Agency (HFA) prepares a variety of documents, available to all members of the House, to assist legislators as they consider and debate the executive budget recommendations.

In addition to appropriations subcommittee and full committee decision documents and summaries, the Agency publishes:

The Governor's Budget Proposal: Review and Analysis

This report, published soon after release of the executive budget recommendation, provides a detailed explanation of the executive budget, including—by department—major changes from prior-year funding and boilerplate.

State of Michigan Appropriations Summary and Analysis

This report, published after budget bills are enacted, provides a detailed analysis of enacted appropriations, highlighting—by department—major budget and boilerplate changes from the current fiscal year.

Line Item and Boilerplate Summary

Prepared after budget bills are enacted, these reports (one for each budget bill) provide line-by-line detail of the amount, purpose, and related boilerplate for each appropriation line in a specific appropriation act, and a brief explanation of each boilerplate section in the act.

Reports Required by Boilerplate

Prepared after budget bills are enacted, this report lists all reports required by boilerplate in a specific fiscal year's appropriation acts, detailing the purpose, reporting and receiving entities, and due date for each required report.

Budget Briefings

Prepared after budget bills are enacted, these PowerPoint presentations—one for each budget bill—provide graphs and information on appropriations, revenue, and specific department programs. Presentations, with graphs and information, are also available for state revenue, revenue sharing, and the budget process.

Michigan Economic Outlook and House Fiscal Agency Revenue Estimates

Prepared by HFA economists, this report explains the methodology and assumptions used in HFA's economic analysis and revenue estimation process; it is published approximately one week before each consensus revenue estimating conference (January and May).

State of Michigan Revenue Source and Distribution

This report provides detail on the source and distribution of Michigan's revenue, and compares current-year revenue projections with estimated revenue for the coming year. Published twice each year, after the January and May consensus revenue estimating conferences, the report also provides information on taxes (tax base, rate, disposition, and estimated collections) and includes information on state revenue dedication.

Revenue Review

This quarterly report provides detail on quarterly and year-to-date revenue collections for Michigan's major taxes.

The House Fiscal Agency also publishes special reports on topics of interest. A complete list of Agency publications may be obtained by contacting the Agency.

House Fiscal Agency reports and publications are distributed to all House members upon publication, and are available on the Agency's website < www.house.mi.gov/hfa>. Additional copies may be obtained by contacting the Agency.

Agency bill summaries and analyses are available on the Michigan Legislative Information System website < www.michiganlegislature.org > .

Appropriations

Gross: Total of all applicable appropriations (statutory spending authorization) in an appropriation bill.

Adjusted Gross: Net amount of all gross appropriations after subtracting interdepartmental grants (IDGs) and intradepartmental transfers (IDTs).

Boilerplate

Specific language sections in an appropriation bill which direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

Budget Stabilization Fund (BSF)

The countercyclical economic and budget stabilization fund (also known as the "rainy day" fund).

Federal Revenue

Federal grant or matchable revenue dedicated to specific programs.

General Fund Revenue

Taxes and other general revenue moneys used to account for the ordinary operations of a governmental unit that are not accounted for in another fund.

General Fund/General Purpose (GF/GP) Revenue

Unrestricted general fund revenue available to fund any activity accounted for in the General Fund; unused GF/GP revenue lapses to the General Fund at the end of a fiscal year.

Interdepartmental Grant (IDG) Revenue

Funds received by one state department from another state department—usually for service(s) provided.

Intradepartmental Transfer (IDT) Revenue

Funding transferred from one appropriation unit to another in the same department.

Lapse

Appropriated amounts that are unspent or unobligated at the end of a fiscal year; appropriations are automatically terminated at the end of a fiscal year unless otherwise provided by law.

Line Item

Specific funding amount in an appropriation bill which establishes spending authorization for a particular program or function (may be for a single purpose or for multiple purposes).

Local Revenue

Revenue from local units of government.

Private Revenue

Revenue from non-government entities: rents, royalties or interest payments, payments from hospitals or individuals, and gifts and bequests.

Restricted (State Restricted) Revenue

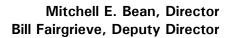
State revenue restricted by state law or outside restriction that is available only for specified purposes; at year-end, unused restricted revenue remains in the restricted fund.

School Aid Fund (SAF) Revenue

Restricted revenue; the primary funding source for K-12 schools and Intermediate School Districts.

Work Project

Statutorily-authorized account which allows a spending authorization to be carried over from one fiscal year to a succeeding fiscal year or years (i.e., allows funds to be spent over a period of years).





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Community Health	
Medicaid	Steve Stauff, Senior Fiscal Analyst
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Education (Department) Mary Ann Cleary, Associate Di	rector; Bethany Wicksall, Senior Fiscal Analyst
Environmental Quality	Kirk Lindquist, Senior Fiscal Analyst
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Attorney General/Civil Rights/Executive/Information Tech	nology/
Legislature/Legislative Auditor General/Lottery/Managemo	ent & Budget/
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JudiciaryBenjamin Gielczyk, Fiscal A	nalyst; Bethany Wicksall, Senior Fiscal Analyst
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